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# In the Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,
*Petitioner*,

v.

LEXMARK INTERNATIONAL, INC.,
*Respondent*.

*On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit*

## BRIEF OF LAW PROFESSORS ADAM MOSSOFF AND GREGORY DOLIN AS *AMICI CURIAE* IN SUPPORT OF RESPONDENT

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## STATEMENT OF INTEREST OF *AMICI CURIAE*

*Amici curiae* are law professors[1] who teach and write about patent law and policy. *Amici* have an interest in ensuring that the legal rules governing the commercialization of property rights in technological innovation remain in accord with the longstanding doctrines created by this Court and Congress since the early nineteenth century. This ensures that patent law reflects the policy of promoting and securing new innovation. As indicated by the citations throughout this brief, some *amici* have authored articles in this field. *Amici* are:

Adam Mossoff
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Antonin Scalia Law School
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[1] Pursuant to Rule 37.6 of the Rules of the Supreme Court, *amici* state that no counsel for a party authored this brief in whole or in part, and no such counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than the *amicus curiae* or their counsel made a monetary contribution to its preparation or submission. The Center for the Protection of Intellectual Property, an academic center at the Antonin Scalia Law School at George Mason University, paid for a portion of the printing and filing fees. *Amici* certify that Respondent has given blanket consent to the filing of *amicus* briefs in support of either party, and Petitioner has consented to the filing of this brief.

## INTRODUCTION

This case concerns the scope of rights of patent owners to transfer their property to third parties, and to create value in the marketplace through complex commercial supply chains. On its face, it appears that this legal issue is merely one of contract rights and whether patent owners can—or should—impose restrictions on downstream commercial implementers or users of their inventions, despite these downstream third-parties not being parties to the initial contracts. This framing of the legal issue is deeply mistaken, because it unmoors the patent doctrine, called "exhaustion" today, from the doctrine in property law first created by this Court and Congress in the early American Republic.

The parties and other *amici* fully address recent case law and the economic and policy arguments, and thus *amici* here offer an important historical and doctrinal insight: This case addresses, not just the scope of contract rights, but the scope of *conveyance rights* that have been long secured to patent owners as owners of *property rights*. Given the confusion in modern case law, both about patent law generally and patent exhaustion doctrine specifically, we must first explain the basic and indisputable legal premise that patents are property rights, which then defines the legal issue in this case as one of conveyance rights, which is precisely how this Court and lower federal courts treated exhaustion doctrine throughout the nineteenth century.

## SUMMARY OF ARGUMENT

Since the first Patent Act of 1790, United States law has consistently treated patent rights as property rights. Nineteenth-century courts thus adopted concepts and doctrines in patent law from common law real property conveyances, including the terms "license" and "assignment." These nineteenth-century courts developed the same default rule for patent conveyances as they had developed for real property: a patent owner has the right to transfer a limited interest in the property, but the patent owner must do so through express restrictions in the original, written conveyance instrument that provides notice to grantees and their successors and assigns.

Contrary to the claims of some professors and policy advocates today, the 1952 Patent Act did not "discard over a century of law relating to patent property and replace it with the rules of personal property." *Patent Law Codification and Revision: Hearing on H.R. 3760 Before the Subcomm. No. 3 of the H. Comm. on the Judiciary*, 82d Cong. 212 at 79 (1951). As Chief Justice John Roberts recognized in *eBay*, well-established "historical practice" continues to guide the interpretation and application of general statutory terms in the Patent Act. *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 394–95 (2006) (Roberts, C.J., concurring).

In *Quanta,* this Court confirmed the status of patent exhaustion as a default rule, and did not abrogate nineteenth-century precedent that confirmed this property-based default rule. *See Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617, 626 (2008) ("[T]he right to vend is exhausted by a single,

*unconditional* sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it.") (quoting *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 516 (1917)) (emphasis added). *Amici* urge the Court to reaffirm its commitment to longstanding precedent by affirming the Federal Circuit's decision.

## ARGUMENT

### I. PATENT RIGHTS ARE PROPERTY RIGHTS

#### *A. Nineteenth-Century Statutes and Case Law Indisputably Established That Patents are Property Rights*

Nineteenth-century courts unequivocally defined patents as property rights. *See* Adam Mossoff, *Who Cares What Thomas Jefferson Thought About Patents? Reevaluating the Patent "Privilege" in Historical Context*, 92 CORNELL L. REV. 953, 992-98 (2007) (collecting cases). This is unsurprising, as the first Patent Act of 1790, enacted by the First Congress, as well as follow-on patent statutes secured the classic set of property rights of acquisition, use, and disposal. *See Vanhorne's Lessee v. Dorrance*, 2 U.S. (2 Dall.) 304, 310 (1795) ("[T]he right of acquiring and possessing property, and having it protected, is one of the natural, inherent, and unalienable rights of man."); *Eaton v. B. C. & M. R. R.*, 51 N.H. 504, 511 (1872) ("Property is the right of any person to possess, use, enjoy, and dispose of a thing." (quoting *Wynehamer v. People*, 13 N.Y. 378, 433 (1856))). The early patent statutes framed these

essential property rights for patent owners as the right to make, use, and *vend* the rights in the invention.[2]

Although patents today are defined in terms of only the "right to exclude," *see, e.g.*, 35 U.S.C. § 154, the 1952 Patent Act did not abrogate this fundamental legal definition and protection of patents as property rights. *See* 35 U.S.C. § 261. Despite the reference in the 1952 Patent Act that patents are "personal property," *id.*, this was not meant to change this Court's time-honored protection of patents as property rights in terms of both real and personal property rights. *See Patent Law Codification and Revision: Hearing on H.R. 3760 Before the Subcomm. No. 3 of the H. Comm. on the Judiciary*, 82d Cong. 212 at 79 (1951) ("Although patents have always been recognized as property, they have not been recognized as personal property but as having attributes of several kinds of property. . . . It is not considered desirable to discard over a century of law relating to patent property and replace it with the

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[2] *See* Patent Act of 1870, ch. 230, § 22, 16 Stat. 198, 201 (repealed 1952) (providing that "every patent shall contain . . . a grant to the patentee, his heirs or assigns . . . the exclusive right to make, use, and vend the said invention or discovery"); Patent Act of 1836, ch. 357, § 11, 5 Stat. 117, 121 (repealed 1870) (providing that "every patent shall be assignable in law" and that this "conveyance of the exclusive right under any patent, to make and use, and to grant to others to make and use, the thing patented" must "be recorded in the Patent Office"); Patent Act of 1793, ch. 11, § 1, 1 Stat. 318, 321 (repealed 1836) (providing that a patent secures "the full and exclusive right and liberty of making, constructing, using, and vending to others to be used, the said invention or discovery"); Patent Act of 1790, ch. 7, § 1, 1 Stat. 109, 110 (repealed 1793) (providing that a patent secures "the sole and exclusive right and liberty of making, constructing, using and vending to others to be used, the said invention or discovery").

rules of personal property.") (testimony of George N. Robillard, Assistant Chief for the Patents and Patent Counsel for the Navy Department, Department of Defense).

This is significant given this Court's consistent references and treatment of patents as property rights since the early Republic. *See, e.g., Ex parte Wood*, 22 U.S. (9 Wheat.) 603, 608 (1824) (stating that a patent secures to an "inventor . . . a property in his inventions; a property which is often of very great value, and of which the law intended to give him the absolute enjoyment and possession"). Throughout the nineteenth century, courts consistently referenced or directly relied on real property precedent in affirming patent rights or in adjudicating disputes of these rights. *See, e.g., Blandy v. Griffith*, 3 F. Cas. 675, 679 (C.C.S.D. Ohio 1869) (Swayne, Circuit Justice) ("The rights secured by a patent for an invention or discovery are as much property as anything else, real or incorporeal."); *Dobson v. Campbell*, 7 F. Cas. 783, 785 (C.C.D. Me. 1833) (Story, Circuit Justice) (resolving a dispute over assignment rights by the patent owner by citing "strong[ ] analogous cases in equity" in which courts recognized the legitimacy of "deeds" conveying land even if a "feoffment is stated without any averment of livery of seisin"); Mossoff, *Who Cares What Thomas Jefferson Thought About Patents?*, *supra*, at 992-98 (discussing cases).

In this Court's unanimous decision in *Pennock v. Dialogue*, 27 U.S. (2 Pet.) 1, 18 (1829), Justice Joseph Story explained that a patent is a "title" and thus an act of invention before an application for a patent is "like an inchoate right to land, or an inceptive right to

land, well known in some of the states, and every where accompanied with the condition, that to be made available, it must be prosecuted with due diligence, to the consummation or completion of the title." Similarly, in *Gayler v. Wilder*, 51 U.S. (10 How.) 477, 493 (1850), this Court recognized "the discoverer of a new and useful improvement is vested by law with an inchoate right to its exclusive use, which he may perfect and make absolute by proceeding in the manner which the law requires. [The inventor] possessed this inchoate right at the time of the assignment [to Enos Wilder]."

The legal definition of patents as property rights is further reflected in the constitutional protection accorded to patents by this Court and lower federal courts under the Due Process Clause and Takings Clause of the Constitution. *See United States v. Burns*, 79 U.S. 246, 252 (1870) (stating that "the government cannot, after the patent is issued, make use of the improvement any more than a private individual, without license of the inventor or making compensation to him"); *Cammeyer v. Newton*, 94 U.S. 225, 234 (1876) (holding that a patent-owner can seek compensation for the unauthorized use of his patented invention by federal officials because "[p]rivate property, the Constitution provides, shall not be taken for public use without just compensation"); *McKeever's Case*, 14 Ct. Cl. 396, 420-22 (1878) (rejecting the argument that a patent is a "grant" of special privilege, because the text and structure of the Constitution, as well as court decisions, clearly establish that patents are private property rights). *See generally* Adam Mossoff, *Patents as Constitutional Private Property: The Historical Protection of Patents under the Takings Clause*, 87 B.U. L. REV. 689 (2007).

### *B. Assignment And License Doctrines Were Incorporated by Nineteenth-Century Courts Into Patent Law From Real Property Common Law Cases*

In accord with the doctrinal and constitutional definition of patents as property rights, nineteenth-century courts incorporated into patent law concepts and doctrines from common law property conveyances. For this case at bar, this is most evident in the early courts' incorporation into patent law of the concepts and doctrines governing the *conveyances* of real property interests. For instance, in *Potter v. Holland*, 19 F. Cas. 1154 (C.C. D. Conn. 1858), District Judge Ingersoll surveys in extensive detail how the real property doctrines of "assignment" and "license" had been applied in patent law in defining the nature of the legal interest that a patent owner conveys to a third party. *See id.* at 1156-57 (stating that "[a]n assignment, as understood by the common law, is a parting with the whole property," and that a license is a "less or different interest than . . . the interest in the whole patent"). *See also Moore v. Marsh*, 74 U.S. (7 Wall.) 515, 520 (1868) ("An assignee is one who holds, by a valid assignment in writing, the whole interest of a patent, or any undivided part of such whole interest, throughout the United States."); *Suydam v. Day*, 23 F. Cas. 473, 474 (C.C.S.D.N.Y. 1846) (distinguishing between "an assignee of a patent [who] must be regarded as acquiring his *title* to it, with a right of action in his own name," and "an interest in only a part of each patent, to wit, a license to use").

Nineteenth-century courts went so far as to incorporate other real property concepts, such as future

interest terms, into the interpretation and enforcement of patent conveyances. *See Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*, 77 F. 288, 290 (6th Cir. 1896) (recognizing under the terms of the license that "[t]he buyer of the machine undoubtedly obtains the title to the materials embodying the invention, subject to a *reverter* in case of violation of the conditions of the sale") (emphasis added); *Goodyear v. Union India Rubber Co.*, 10 F. Cas. 726, 727 (C.C.S.D.N.Y. 1857) (stating that the patent owner who creates a restricted assignment or license retains a revertor interest); *cf. Clum v. Brewer*, 5 F. Cas. 1097, 1102-03 (C.C.D. Mass. 1855) (Curtis, Circuit Justice) (referring to an assignee as a "tenant in common" given his "undivided fourth part" in the "title" to Samuel Morse's patent in the electro-magnetic telegraph).

### *C. Nineteenth-Century Courts Developed The Same "Conditional" Legal Rule Governing Conveyance of Patent Rights As Conveyances of Real Property Rights*

On the basis of this linkage between real property and patents as property rights, nineteenth-century courts developed the same default rule for patent conveyances as they had developed for real property: a patent owner has the right to transfer a limited interest in the property, but the patent owner must do so through express restrictions in the original, written conveyance instrument. *See, e.g., Am. Cotton-Tie Supply Co. v. Bullard*, 1 F. Cas. 625, 629 (C.C.S.D.N.Y. 1879) (recognizing that patented products may be sold where "a restriction may easily be attached, or where a license to use only may be sold, unaccompanied with any title or accompanied with a restricted title");

*Washing Mach. Co. v. Earle*, 29 F. Cas. 332, 334 (C.C.E.D. Pa. 1861) ("Every person who pays the patentee for a license to use his process becomes the owner of the product, and may sell it to whom he pleases, or apply it to any purpose, *unless he bind himself by covenants to restrict his right of making and vending certain articles* that may interfere with the special business of some other licensees.") (emphasis added).

This was true despite Chief Justice Roger Taney's language in *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539, 549 (1852), that a patent is only a "right to exclude" and thus all sales of patent rights exhaust this singular right of exclusion. Unfortunately, in saying this, Chief Justice Taney "rewrote the 1836 Patent Act," which expressly defined patents in terms of the classic property rights of use and disposition. Adam Mossoff, *Exclusion and Exclusive Use in Patent Law*, 22 HARV. J.L. & TECH. 321, 341 (2009). The esteemed patent law historian, Edward Walterscheid, has also recognized this unfortunate misreading of the patent statutes by Chief Justice Taney. *See* Edward C. Walterscheid, *Divergent Evolution of the Patent Power and the Copyright Power*, 9 MARQ. INTELL. PROP. L. REV. 307, 330 (2005) (referring to Chief Justice Taney's opinion in *McQuewan* as an "extraordinary holding which appeared on its face so contradictory to the statutory language").

The Supreme Court and lower federal courts thus treated the sweeping claims about exhaustion by Chief Justice Taney as dictum, and they continued to recognize that patent owners had the right, as all property owners, to impose in a written instrument a

variety of restrictions on the possession and use of their property conveyed to a third-party, and with notice of these restrictions, ran with the property to successors and assigns. This was the same right as landowners to create through express restrictions lesser estates or restrictive covenants in conveyance instruments. *See* Joseph William Singer, *Introduction to Property* 231–34 (2001) (discussing notice requirement in restrictive covenant doctrine for real property law).

For instance, a patent-owner could restrict a third-party in terms of the total quantity of patented products manufactured or sold. *See e.g. Bloomer v. McQuewan*, 55 U.S. 539, 554 (1852) (Mclean, J., dissenting) (describing a license among the parties, which they were not disputing in the case, to make and use a patented planning machine "within Pittsburgh and Alleghany county . . . [and] not to construct or run more than fifty machines during the term"); *Goodyear v. Providence Rubber Co.*, 10 F. Cas. 712, 722 (C.C.D. R.I. 1864) (Clifford, Circuit Justice) (noting that Goodyear's license "authorizes the licensee therein named, to use the inventor's metallic gum-elastic composition for coating cloths, for the purpose of japanning, marbling, and variegate japanning"); *Goodyear v. Beverly Rubber Co.*, 10 F. Cas. 638, 641 (C.C.D. Mass. 1859) (Clifford, Circuit Justice) (discussing limited grant of a license to only manufacture and sell shoes using Goodyear's patented rubber vulcanization process).

Nineteenth-century patent owners restricted the manner in which the patented product may be used by a third party. *See e.g.*, *Cotton-Tie Co. v. Simmons*, 106 U.S. 89 (1882) (enforcing a restriction on a licensee

prohibiting re-use of a patented cotton-bale tie, on which the patented products were stamped "License to use once only"); *Providence Rubber Co. v. Goodyear*, 76 U.S. 788, 799–800 (1869) (enforcing against the defendants the express sale and use restrictions imposed in a license); *Chaffee v. Bos. Belting Co.*, 63 U.S. 217, 220 (1859) (recognizing by "the terms of the instrument" created by Goodyear in this case that "it was understood that the right and license so conveyed was to apply to any and all articles substituted for leather, metal, and other substances, in the use or manufacture of machines or machinery . . . .").

Nineteenth-century patent owners restricted the territorial scope in which the patented product may be used or sold. *See, e.g.*, *McQuewan*, 55 U.S. at 554 (describing a valid assignment of the patent "within several States, including Pennsylvania, except the city of Philadelphia"); *Farrington v. Gregory*, 8 F. Cas. 1088, 1089 (C.C.E.D. Mich. 1870) (noting that a license contained a valid geographic restriction that limited the licensee's "right to use and sell machines in Calhoun and Kalamazoo counties, in the state of Michigan . . . .").

By the end of the nineteenth century, it was well-settled doctrine that patentees could convey restricted interests in their property as long as the patent owner expressly specified these restrictions in the conveyance instrument and third parties had notice of these restrictions. *See Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*, 77 F. 288, 291 (6th Cir. 1896) (holding that a licensee and its wholesaler are both liable to a license restriction because the "jobber buys and sells subject to the restriction, and both have

notice of the conditional character of the sale, and of the restriction on the use" of the patented invention). Thus, grantees took "title" to the underlying patented invention "subject to a reverter in case of violation of the conditions of the sale." *Id.* at 290.

Later in the twentieth century, this conveyance default rule came to be known as exhaustion doctrine. The "exhaustion" term emphasizes more the default aspect of the rule that a patent owner's failure to impose express restrictions with notice to third parties was required to retain a future interest, rather than the right of patentees to convey lesser interests through licenses. *See Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 516 (1917) ("[T]he right to vend is *exhausted* by a single, *unconditional* sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it.") (emphases added). Despite this new label, though, the nature of the "conditional sale" default rule remained the same: a patent owner exhausted its property rights if it conveyed the property without "explicit and unequivocal restrictions as to the time, or place, or manner of using the [patented] article" that created some type of reversionary interest. *Curtiss Aeroplane & Motor Corp. v. United Aircraft Eng'g Corp.*, 266 F. 71, 77 (2d Cir. 1920).

The modern "exhaustion" label is different than that used by nineteenth-century courts in describing patent conveyances, but the doctrine remains the same. In fact, one early twentieth-century court observed that exhaustion doctrine simply reflected "truisms"

concerning the right of conveyance. *See Am. Graphophone Co. v. Boston Store of Chicago*, 225 F. 785, 787 (N.D. Ill. 1915) (stating as "truisms" that "after a patentee has *exhausted* his right, he can no longer exercise it, or that, when he has once sold to an individual for a full price, the public cannot be barred from the full and *unrestricted* use and right of resale") (emphases added).

## II. THE 1952 PATENT ACT CODIFIED EXISTING NINETEENTH-CENTURY CONVEYANCE DOCTRINES OF PATENTS AS PROPERTY RIGHTS

These nineteenth-century cases, though, must be viewed through the lens of subsequently enacted statutes, such as the 1952 Patent Act. This Court has recognized that, barring an express abrogation of a preexisting judge-made doctrine, the 1952 Patent Act did not to repeal nineteenth-century precedent. In *Warner-Jenkinson*, for example, this Court held that the doctrine of equivalents, a judge-made infringement doctrine in the nineteenth century, survived the enactment of the 1952 Patent Act. *See Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 26-27 (1997). This follows well-established canons of statutory construction. *See Isbrandtsen Co. v. Johnson*, 343 U.S. 779, 783 (1952) ("Statutes which invade the common law . . . are to be read with a presumption favoring the retention of long-established and familiar principles, except when a statutory purpose to the contrary is evident."). Thus, for example, the enactment of 35 U.S.C. § 103 expressly repealed this Court's flash of genius test. *See Graham v. John Deere Co.*, 383 U.S. 1, 15 (1966) (stating that it is "apparent

that Congress intended by the last sentence of § 103 to abolish the test it believed this Court announced in the controversial phrase 'flash of creative genius'").

In understanding patent conveyance doctrine today, it is highly relevant that the 1952 Patent Act explicitly refers to a patent-owner's rights to convey its property interests to third-parties. Although §154 generally frames the patent as "the right to exclude," it does so by reference to the right of "offering for sale, or selling the invention." 35 U.S.C. § 154. For all property rights, exclusion is understood by reference to the core rights of what the owner or third-parties do with the asset, and § 154 confirms this in its structure. In sum, the right to exclude by logical necessity implies the right of the property owner to engage in this activity—the property owner has the exclusive right to sell or otherwise convey its property rights in the marketplace. *See E. Bement & Sons v. National Harrow Co.*, 186 U.S. 70, 88-89 (1902) ("An owner of a patent has the right to sell it or to keep it; to manufacture the article himself or to license others to manufacture it; to sell such article himself or to authorize others to sell it."); *Biotech. Indus. Org. v. District of Columbia*, 505 F.3d 1343, 1346 (Fed. Cir. 2007) (Garjasa, J., concurring) (stating that "the primary mechanism by which the right to exclude promotes such innovation is by providing the patentee with the opportunity to obtain greater profits than it could have obtained without such a right to exclude"); *King Instruments Corp. v. Perego*, 65 F.3d 941, 950-51 (Fed. Cir. 1995) ("The [Patent] Act supplies a carrot in the form of economic rewards resulting from the right to exclude. . . . The Act does not dictate that a patentee

must manufacture its own invention to recover the costs of innovation.").

Similarly, the 1952 Patent Act was the first patent statute that expressly codified the status of patents as property rights, but it did so by reference to patents as having "the attributes of personal property." 35 U.S.C. § 261. As explained above, this was not meant to abrogate preexisting doctrine that defined patents in terms of real *and* personal property rights. *See supra* Part I. As further evidence, § 261 codifies the longstanding legal requirement that a patent, as a property right, "shall be assignable in law by an instrument in writing," and that a patent-owner may "grant and convey an exclusive right" in the patent. *Id.* These statutory requirements and permissions in § 261 incorporate the longstanding legal definition of patents as real property interests, not personal property.[3]

Section 261 thus confirms the close doctrinal connection made by nineteenth-century courts that, since a patent is a property right, it is fully alienable with or without restrictions. If a patent is alienated without restrictions, like all property, it is deemed to have been transferred in its entirety and the previous owner has no claim whatsoever to the property it once owned. If a patent is alienated with express restrictions, and third parties have notice of these

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[3] "In its first patent statutes, Congress created writing and recordation requirements for patent conveyances, adopting a legal norm from real property that ensured proper notice of conveyances and of any use restrictions imposed by a grantor in a conveyance instrument." Mossoff, *Exclusion and Exclusive Use in Patent Law*, *supra*, at 354 (citing Patent Acts of 1793 and 1836, and the Statute of Frauds).

restrictions, then a lesser estate interest has been conveyed to the grantee and to any successors in interest who may also acquire that lesser estate interest.

Even if this Court concludes there is an ambiguity or conflict in the 1952 Patent Act and the preexisting default rule conveyance doctrines created in the nineteenth century, it recently stated in *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), that legal practices reflecting a "long tradition" should prevail in patent law today. *Id.* at 391 (quoting *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 320 (1982)). Moreover, Chief Justice John Roberts rightly recognized in *eBay* that a well-established "historical practice" constrains the interpretation and application of general statutory terms in the Patent Act. *Id.* at 394–95 (Roberts, C.J., concurring). Just last year in *Kimble v. Marvel Entm't, LLC*, 135 S. Ct. 2401, 2410 (2015), this Court again confirmed "that in just those contexts—'cases involving property and contract rights'—considerations favoring *stare decisis* are 'at their acme.'"

## III. MODERN PATENT EXHAUSTION DOCTRINE RIGHTLY FOLLOWED THE PROPERTY-BASED "CONDITIONAL SALE" RULE FROM THE NINETEENTH CENTURY

This Court's *Quanta* decision did not overrule *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), nor did it disturb longstanding precedent concerning the nature of patent rights. *Quanta Computer v. LG Elecs.*, 553 U.S. 617, 625 (2008) (stating that it is applying "[t]he longstanding doctrine

of patent exhaustion" that was "first applied . . . in 19th-century cases").

In *Mallinckrodt*, the Federal Circuit explicitly reaffirmed the nineteenth-century conception of patent exhaustion as a default rule applying to "conditional sales" and not as an inexorable rule. The Federal Circuit recognized the existence of historical restraints on patent alienation, such as the doctrine of patent misuse, but affirmed that contracting parties may impose conditions or limitations on the patent rights conferred.

The essence of the *Mallinckrodt* holding is summarized by an early twentieth-century case, which itself summarizes the state of preceding patent law jurisprudence:

> [T]he rule is, with few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the [patented] article, will be upheld by the courts.

*Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 703 (Fed. Cir. 1992) (quoting *E. Bement & Sons v. National Harrow Co.*, 186 U.S. 70, 91 (1902)). As with real property, "the general rule is absolute freedom in the use or sale of rights under the patent laws of the United States." *See E. Bement*, 186 U.S. at 91.

Consistent with well-established historical case law by this Court and many lower courts, *Mallinckrodt* acknowledged that sales without any express restraint exhaust all patent rights in the article sold, *i.e.*

exhaustion is a default rule. *Mallinckrodt*, 976 F.2d at 706–07 (citing *Adams v. Burke*, 84 U.S. (17 Wall.) 453, 21 L. Ed. 700 (1874); *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 39 L. Ed. 848, 15 S. Ct. 738 (1895)). *Mallinckrodt* also acknowledged that certain restraints may be *per se* illegal patent misuse or prohibited under the antitrust laws, such as "price-fixing and tying restrictions accompanying the sale of patented goods." *Id.* at 704 (citing *Bauer & Cie. v. O'Donnell*, 229 U.S. 1 (1913); *Straus v. Victor Talking Machine Co.*, 243 U.S. 490 (1917); *Boston Store of Chicago v. American Graphophone Co.*, 246 U.S. 8 (1918)). Absent these circumstances, *Mallinckrodt* held that the law does not impose a mandatory rule of exhaustion. *Mallinckrodt*, 976 F.2d at 705 ("The practice of granting licenses for restricted use is an old one. . . . So far as it appears, its legality has never been questioned.").

The *Quanta* Court's decision does not call the basic principles of *Mallinckrodt* into question, but rather affirms the default rule of exhaustion in the absence of express restrictions on the scope of a conveyance of patent rights, whether in an assignment or license. As the Federal Circuit observed in its decision below, "*Quanta* did not involve a patentee's sale at all, let alone one subject to a restriction or, more particularly, a single-use/no-resale restriction. . . . the Court repeatedly stated that the relevant LGE-Intel contract gave Intel an unrestricted authorization to sell the articles." *Lexmark Int'l, Inc. v. Impression Prods.*, 816 F.3d 721, 737 (Fed. Cir. 2016). The *Quanta* Court therefore had no need to answer the question that is now before the Court—whether parties to a conveyance of a property right can agree that the grantee receives a restricted interest (license), a restricted assignment,

or an outright assignment with no express restrictions whatsoever in a transfer of the entire property right.

## CONCLUSION

For the foregoing reasons, the Federal Circuit's holding should be affirmed.

Respectfully submitted,

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